

**REPORT OF THE AUDIT OF THE  
GRAVES COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2011**



**ADAM H. EDELEN  
AUDITOR OF PUBLIC ACCOUNTS  
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**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**GRAVES COUNTY FISCAL COURT**

**June 30, 2011**

The Auditor of Public Accounts has completed the audit of the Graves County Fiscal Court for fiscal year ended June 30, 2011.

We have issued unqualified opinions on the governmental activities, business-type activities, and each major fund of Graves County, Kentucky.

In accordance with OMB Circular A-133, we have issued an unqualified opinion on the compliance requirements that are applicable to Graves County's major federal program: Disaster Grants – Public Assistance (Presidentially Declared Disasters) (CFDA #97.036).

**Financial Condition:**

The fiscal court had total net assets of \$34,437,813 as of June 30, 2011. The fiscal court had unrestricted net assets of \$855,758 in its governmental activities as of June 30, 2011, with total net assets of \$34,405,966. In its business-type activities, total net cash and cash equivalents were \$26,647 with total net assets of \$31,847. The fiscal court had total debt principal as of June 30, 2011 of \$2,124,249 with \$2,041,985 due within the next year.

**Report Comments:**

- |         |  |
|---------|--|
| 2011-01 | The County's 4 <sup>th</sup> Quarter Financial Report Should Be Prepared In Accordance With KRS 68.360   |
| 2011-02 | Expenditure Should Not Exceed Line-Item Appropriation Amounts  |
| 2011-03 | Internal Controls Over The Collection Of And Accounting For Payroll Taxes Should Be Strengthened   |
| 2011-04 | Internal Controls Over The Financial Reporting Of Capital Assets And Infrastructure Should Be Strengthened   |
| 2011-05 | Internal Controls Over The Financial Reporting Of Liabilities And Debt Service Should Be Strengthened  |
| 2011-06 | Internal Controls Over Expenditures Should Be Strengthened   |
| 2011-07 | The Graves County Fiscal Court Did Not Establish Procedures To Ensure Compliance With Procurement Compliance Requirements  |
| 2011-08 | The Graves County Fiscal Court Failed To Implement Internal Controls Over Federal Compliance Requirements – Activities Allowed Or Unallowed/Allowable Costs, Cash Management, Procurement, And Reporting |

**Deposits:**

The fiscal court and component units' deposits were insured and collateralized by bank securities.



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**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Lori H. Flanery, Secretary  
Finance and Administration Cabinet  
Honorable Tony Smith, Graves County Judge/Executive  
Members of the Graves County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Graves County, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Graves County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Graves County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of Graves County, Kentucky, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has implemented Governmental Accounting Standards Board Statement 54 as it relates to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.



To the People of Kentucky  
 Honorable Steven L. Beshear, Governor  
 Lori H. Flanery, Secretary  
 Finance and Administration Cabinet  
 Honorable Tony Smith, Graves County Judge/Executive  
 Members of the Graves County Fiscal Court

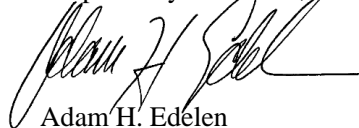
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Graves County, Kentucky's basic financial statements as a whole. The budgetary comparison information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole. The budgetary comparison information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

In accordance with Government Auditing Standards, we have also issued our report dated June 1, 2012 on our consideration of Graves County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying schedule of findings and questioned costs included herein, which discusses the following report comments:

- 2011-01 The County's 4<sup>th</sup> Quarter Financial Report Should Be Prepared In Accordance With KRS 68.360
- 2011-02 Expenditure Should Not Exceed Line-Item Appropriation Amounts
- 2011-03 Internal Controls Over The Collection Of And Accounting For Payroll Taxes Should Be Strengthened
- 2011-04 Internal Controls Over The Financial Reporting Of Capital Assets And Infrastructure Should Be Strengthened
- 2011-05 Internal Controls Over The Financial Reporting Of Liabilities And Debt Service Should Be Strengthened
- 2011-06 Internal Controls Over Expenditures Should Be Strengthened
- 2011-07 The Graves County Fiscal Court Did Not Establish Procedures To Ensure Compliance With Procurement Compliance Requirements
- 2011-08 The Graves County Fiscal Court Failed To Implement Internal Controls Over Federal Compliance Requirements - Activities Allowed Or Unallowed/Allowable Costs, Cash Management, Procurement, And Reporting

Respectfully submitted,



Adam H. Edelen  
 Auditor of Public Accounts

June 1, 2012



GRAVES COUNTY OFFICIALS

For The Year Ended June 30, 2011

**Fiscal Court Members:**

Tony Smith	County Judge/Executive
Todd Hayden	Magistrate
Jesse Perry	Magistrate
Mark Waggoner	Magistrate

**Other Elected Officials:**

John Cunningham	County Attorney
Randy Haley	Jailer
Barry Kennemore	County Clerk
Heather Winfrey	Circuit Court Clerk
Dewayne Redmon	Sheriff
Howell Carr	Property Valuation Administrator
Phillip McClain	Coroner

**Appointed Personnel:**

Vicki McClain	County Treasurer
Codie Courtney	Finance Officer

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**GRAVES COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2011**



**GRAVES COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2011**

	<b>Primary Government</b>		
	<b>Governmental</b>	<b>Business-Type</b>	
	<b>Activities</b>	<b>Activities</b>	<b>Totals</b>
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 2,190,453	\$ 26,647	\$ 2,217,100
Assets Held For Resale	608,000		608,000
Total Current Assets	2,798,453	26,647	2,825,100
Noncurrent Assets:			
Land and Land Improvements	276,270		276,270
Capital Assets - Net of Accumulated Depreciation			
Buildings	6,066,341		6,066,341
Vehicles	242,414		242,414
Equipment	828,914	5,200	834,114
Infrastructure	26,317,823		26,317,823
Total Noncurrent Assets	33,731,762	5,200	33,736,962
Total Assets	36,530,215	31,847	36,562,062
<b>LIABILITIES</b>			
Current Liabilities:			
Bonds Payable	505,000		505,000
Short-term Debt Obligation	1,500,000		1,500,000
Financing Obligations Payable	36,985		36,985
Total Current Liabilities	2,041,985		2,041,985
Noncurrent Liabilities:			
Financing Obligations Payable	82,264		82,264
Total Noncurrent Liabilities	82,264		82,264
Total Liabilities	2,124,249		2,124,249
<b>NET ASSETS</b>			
Invested in Capital Assets,			
Net of Related Debt	33,107,513	5,200	33,112,713
Restricted For:			
Debt Service	442,695		442,695
Unrestricted	855,758	26,647	882,405
Total Net Assets	\$ 34,405,966	\$ 31,847	\$ 34,437,813

The accompanying notes are an integral part of the financial statements.

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**GRAVES COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2011**

**GRAVES COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2011**

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 2,341,418	\$ 515,367	\$ 82,640	\$ 157,244
Protection to Persons and Property	2,314,966	140,628	907,992	277,497
General Health and Sanitation	504,178		60,517	445,898
Social Services	37,796			
Recreation and Culture	251,512			
Roads	3,700,101		2,024,835	
Airports	26,462			
Debt Service	55,148			
Total Governmental Activities	9,231,581	655,995	3,075,984	880,639
Business-type Activities:				
Jail Canteen	70,360	57,708		
Total Business-type Activities	70,360	57,708	0	0
Total Primary Government	\$ 9,301,941	\$ 713,703	\$ 3,075,984	\$ 880,639

**General Revenues:**

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Other Taxes

In Lieu of Tax

Excess Fees

Miscellaneous Revenues

Interest Received

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.



**GRAVES COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2011**  
**(Continued)**

<b>Net (Expenses) Revenues and Changes in Net Assets</b>		
<b>Primary Government</b>		
<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Totals</b>
\$ (1,586,167)		\$ (1,586,167)
(988,849)		(988,849)
2,237		2,237
(37,796)		(37,796)
(251,512)		(251,512)
(1,675,266)		(1,675,266)
(26,462)		(26,462)
(55,148)		(55,148)
<u>(4,618,963)</u>	<u>0</u>	<u>(4,618,963)</u>
	(12,652)	(12,652)
	(12,652)	(12,652)
<u>\$ (4,618,963)</u>	<u>\$ (12,652)</u>	<u>\$ (4,631,615)</u>
1,458,753		1,458,753
7,713		7,713
229,741		229,741
1,593,632		1,593,632
175,113		175,113
322,122		322,122
133,356		133,356
6,193	4	6,197
<u>3,926,623</u>	<u>4</u>	<u>3,926,627</u>
(692,340)	(12,648)	(704,988)
<u>35,098,306</u>	<u>44,495</u>	<u>35,142,801</u>
<u>\$ 34,405,966</u>	<u>\$ 31,847</u>	<u>\$ 34,437,813</u>

The accompanying notes are an integral part of the financial statements.

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**GRAVES COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2011**



**GRAVES COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2011**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Escrow Fund</b>	<b>Building Commission Fund</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 770,504	\$ 41,210	\$ 936,044	\$ 442,695	\$ 2,190,453
Total Assets	<u>770,504</u>	<u>41,210</u>	<u>936,044</u>	<u>442,695</u>	<u>2,190,453</u>
<b>FUND BALANCES</b>					
<b>Restricted For:</b>					
Protection to Persons and Property			70,365		70,365
Debt Service				442,695	442,695
<b>Assigned To:</b>					
Protection to Persons and Property	7,939		865,679		873,618
Roads		41,210			41,210
<b>Unassigned</b>	<u>762,565</u>				<u>762,565</u>
Total Fund Balances	<u>\$ 770,504</u>	<u>\$ 41,210</u>	<u>\$ 936,044</u>	<u>\$ 442,695</u>	<u>\$ 2,190,453</u>

**Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:**

Total Fund Balances	\$ 2,190,453
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Assets Held For Resale Are Not Financial Resources And Therefore	
Are Not Reported in the Funds.	608,000
Capital Assets Used in Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Funds.	145,623,055
Accumulated Depreciation	(111,891,293)
Long-term debt is not due and payable in the current period and, therefore, is not	
reported in the funds.	
Due Within One Year - Bonds and Financing Obligation	(541,985)
Due Within One Year - Short-term Debt	(1,500,000)
Due In More Than One Year - Financing Obligation	<u>(82,264)</u>
Net Assets Of Governmental Activities	<u>\$ 34,405,966</u>

The accompanying notes are an integral part of the financial statements.

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**GRAVES COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2011**





**GRAVES COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2011**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Escrow Fund</b>	<b>Building Commission Fund</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>					
Taxes	\$ 3,271,792	\$	\$	\$	\$ 3,271,792
In Lieu Tax Payments	175,113				175,113
Excess Fees	322,122				322,122
Licenses and Permits	21,370				21,370
Intergovernmental	1,142,898	2,085,352	620,407	233,634	4,082,291
Charges for Services	124,105				124,105
Miscellaneous	509,395	26,860			536,255
Interest	1,403	2,729	2,049	13	6,194
Total Revenues	<u>5,568,198</u>	<u>2,114,941</u>	<u>622,456</u>	<u>233,647</u>	<u>8,539,242</u>
<b>EXPENDITURES</b>					
General Government	1,033,214				1,033,214
Protection to Persons and Property	2,435,444				2,435,444
General Health and Sanitation	504,178				504,178
Social Services	37,796				37,796
Recreation and Culture	175,592				175,592
Roads		3,562,614			3,562,614
Airports	16,942	18,240			35,182
Debt Service	260,363	35,670	42	382,150	678,225
Administration	1,087,497	126,149		13	1,213,659
Total Expenditures	<u>5,551,026</u>	<u>3,742,673</u>	<u>42</u>	<u>382,163</u>	<u>9,675,904</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>17,172</u>	<u>(1,627,732)</u>	<u>622,414</u>	<u>(148,516)</u>	<u>(1,136,662)</u>
<b>Other Financing Sources (Uses)</b>					
Issuance of Short-term Debt		1,500,000			1,500,000
Transfers Out	(197,965)		(550,000)		(747,965)
Transfers In	550,000	42,000		155,965	747,965
Total Other Financing Sources (Uses)	<u>352,035</u>	<u>1,542,000</u>	<u>(550,000)</u>	<u>155,965</u>	<u>1,500,000</u>
Net Change in Fund Balances	369,207	(85,732)	72,414	7,449	363,338
Fund Balances - Beginning	401,297	126,942	863,630	435,246	1,827,115
Fund Balances - Ending	<u>\$ 770,504</u>	<u>\$ 41,210</u>	<u>\$ 936,044</u>	<u>\$ 442,695</u>	<u>\$ 2,190,453</u>

The accompanying notes are an integral part of the financial statements.

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**GRAVES COUNTY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2011**



**GRAVES COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2011**

Net Change in Fund Balances - Total Governmental Funds	\$ 363,338
Governmental Funds Report Capital Outlay As Expenditures However, In The Statement Of Activities, The Cost Of Those Assets Are Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense.	
Capital Outlay	855,927
Depreciation Expense	(1,034,682)
The Issuance of Short-term Debt (e.g. Notes Payable) Provides Current Financial Resources To Governmental Funds, While Repayment Of Principal On Short-term Debt Consumes The Current Financial Resources Of Governmental Funds. These Transactions, However, Have No Effect On Net Assets.	
Short-term Debt Proceeds	(1,500,000)
Repayment Of Principal On Long-term Debt Consumes The Current Financial Resources Of Governmental Funds. The Transactions, However, Have No Effect On Net Assets	
Financing Obligations Principal Payments	283,077
Bond Principal Payments	<u>340,000</u>
Change in Net Assets of Governmental Activities	<u><u>\$ (692,340)</u></u>

The accompanying notes are an integral part of the financial statements.

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**GRAVES COUNTY**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**June 30, 2011**





**GRAVES COUNTY**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**June 30, 2011**

	<b>Business-Type Activities - Enterprise Fund</b>
	<b>Jail Canteen Fund</b>
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 26,647
Total Current Assets	<u>26,647</u>
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation	
Vehicles	5,200
Total Noncurrent Assets	<u>5,200</u>
Total Assets	<u>31,847</u>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	5,200
Unrestricted	26,647
Total Net Assets	<u><u>\$ 31,847</u></u>

The accompanying notes are an integral part of the financial statements.

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**GRAVES COUNTY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -**  
**PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2011**



**GRAVES COUNTY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -**  
**PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2011**

	<b>Business-Type Activities - Enterprise Fund</b>
	<b>Jail Canteen Fund</b>
<b>Operating Revenues</b>	
Canteen Receipts	\$ 51,828
Total Operating Revenues	<u>51,828</u>
<b>Operating Expenses</b>	
Canteen Sales	52,760
Educational and Recreational	6,845
Depreciation	1,300
Miscellaneous	479
Total Operating Expenses	<u>61,384</u>
Operating Income (Loss)	<u>(9,556)</u>
<b>Nonoperating Revenues (Expenses)</b>	
Inmate Pay from State	5,880
Interest Income	4
Inmate Refunds	<u>(8,976)</u>
Total Nonoperating Revenues (Expenses)	<u>(3,092)</u>
Change in Net Assets	(12,648)
Total Net Assets - Beginning (Restated)	<u>44,495</u>
Total Net Assets - Ending	<u><u>\$ 31,847</u></u>

The accompanying notes are an integral part of the financial statements.

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**GRAVES COUNTY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2011**





**GRAVES COUNTY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2011**

	<b>Business-Type Activities - Enterprise Fund</b>
	<b>Jail Canteen Fund</b>
<b>Cash Flows From Operating Activities</b>	
Canteen Receipts	\$ 51,828
Canteen Sales	(52,760)
Educational and Recreational	(6,845)
Miscellaneous	(479)
Net Cash Provided (Used) By Operating Activities	(8,256)
<b>Cash Flows From Noncapital Financing Activities</b>	
Inmate Pay from State	5,880
Inmate Refunds	(8,976)
Net Cash Provided (Used) By Noncapital Financing Activities	(3,096)
<b>Cash Flows From Capital And Related Financing Activities</b>	
Capital Outlay	(6,500)
Net Cash Provided (Used) By Noncapital Financing Activities	(6,500)
<b>Cash Flows From Investing Activities</b>	
Interest Earned	4
Net Cash Provided By Investing Activities	4
Net Increase (Decrease) in Cash and Cash Equivalents	(17,848)
Cash and Cash Equivalents July 1	44,495
Cash and Cash Equivalents June 30	\$ 26,647

The accompanying notes are an integral part of the financial statements.

**GRAVES COUNTY**  
**STATEMENT OF CASH FLOWS -**  
**PROPRIETARY FUND - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2011**  
**(Continued)**

<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</b>	
Operating Income (Loss)	\$ (9,556)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) By Operating Activities	
Depreciation Expense	<u>1,300</u>
Net Cash Provided by Operating Activities	<u><u>\$ (8,256)</u></u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES  
TO THE FINANCIAL STATEMENTS**

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**GRAVES COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011**

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

**B. Reporting Entity**

The financial statements of Graves County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. Graves County has no discretely presented component units.

**Blended Component Units**

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. The organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

**Graves County Building Commission**

This fund accounts for the debt service requirements of refunding bonds of the County and is presented as a debt service fund. Debt service funds are used to account for the accumulation of resources for, and the payment of general long-term debt principal and interest. The Department for Local Government does not require the County to report or budget these funds. However, the County decided to include the Building Commission Fund as part of the primary government as a blended component unit of the county.

**GRAVES COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. Graves County Elected Officials**

Kentucky law provides for election of the officials below from the geographic area constituting Graves County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Graves County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**D. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

**GRAVES COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

**Governmental Funds**

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Escrow Fund – The purpose of this fund is to account for certain revenues from the state for housing state inmates. These funds are normally transferred to the General Fund or Jail Fund to meet debt service requirements of general obligation bonds associated with the Graves County Jail.

Building Commission Fund – The purpose of this fund is to account for debt service payments for the Courthouse renovation and Jail renovation projects of 1996. The Department for Local Government does not require the fiscal court to report or budget this fund.

**Special Revenue Funds:**

The Road Fund and Jail Escrow Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of significant restricted and/or committed revenue sources and expenditures that are legally restricted or committed for specific purposes.

**Debt Service Fund:**

The Graves County Building Commission Fund is presented as a debt service fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

**GRAVES COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

**Proprietary Funds**

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

**E. Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**F. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

**GRAVES COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**F. Capital Assets (Continued)**

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	10-60
Buildings and Building Improvements	50,000	10-75
Machinery and Equipment	5,000	3-25
Vehicles	5,000	3-25
Infrastructure	25,000	10-50

**G. Long-term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

**H. Fund Equity**

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into non-spendable and spendable components, if applicable.

Non-spendable includes amounts that must be maintained intact legally or contractually.

Spendable include the following:

- Restricted-amounts constrained for a specific purpose by external parties, constitutional provisions, or enabling legislation.
- Committed-amounts constrained for a specific purpose by the county using its highest level of decision making authority.
- Assigned-for all governmental funds, other than general fund, any remaining positive amounts not classified as non-spendable, restricted, or committed. For the general fund, amounts constrained by intent to be used for a specified purpose by the County or the delegated county committee or official given authority to assign amounts.
- Unassigned-for the general fund, amounts not classified as non-spendable, restricted, committed or assigned. For all other governmental funds, amount expended in excess of resources that are non-spendable, restricted, committed or assigned.

For resources considered committed, the county issues an ordinance or resolution that can only be changed with another corresponding ordinance or resolution.

For resources considered assigned, the county has designated the county treasurer to carry out the intent of the fiscal court.



**GRAVES COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**H. Fund Equity (Continued)**

It is the policy of the County to spend restricted resources first, when both restricted and unrestricted resources are available to spend on the activity. Once restricted resources are exhausted, then committed, assigned and unassigned resources will be spent in that order on the activity.

Encumbrances, although not reported on the balance sheet, are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Due to the modified cash basis of accounting, encumbrances can also include invoices for goods or services received at June 30, but not yet paid and not included as an accounts payable. Significant encumbrances at year end are reported by major funds and non-major funds in the aggregate and included with the commitments and contingencies note disclosure, if applicable.

**I. Use of Estimates**

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect certain reported amounts at the date of the financial statements. Actual results could differ from those estimates.

**J. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The State Local Finance Officer does not require the Jail Canteen Fund or the Building Commission Fund to be budgeted.

**K. Related Organizations, Joint Venture, and Jointly Governed Organizations**

Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Graves County Fiscal Court:

Graves County Water District  
 Graves County Extension District

Symsonia Water District  
 Hickory Water District

**GRAVES COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**J. Related Organizations, Joint Venture, and Jointly Governed Organizations (Continued)**

Joint Venture

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following are considered a joint ventures of the Graves County Fiscal Court:

Mayfield-Graves County Parks and Recreation  
 Graves Growth Alliance, Inc.

Mayfield-Graves County Senior Citizens  
 Mayfield-Graves County Ambulance Service

Jointly Governed Organizations

A regional government or other multi-governmental arrangement that is governed by representatives from each of the governments that created the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility is a jointly governed organization. Based on these criteria, the following are considered jointly-governed organizations of the Graves County Fiscal Court:

Purchase Area Regional Industrial Development Authority  
 Mayfield-Graves County Airport.

Mayfield-Graves County Library

**K. Interfund Transactions**

The Graves County Fiscal Court has the following type of interfund transactions:

Interfund Transfers – Transfers presented in the fund financial statements represent the flow of assets (such as goods or cash) without equivalent flow of assets in return or requirement of repayment. The composition of the interfund transfers is presented in Note 7. Note that at the entity-wide level, the interund transfers have been eliminated. This is to avoid revenues and expenses from being reported more than once.

**Note 2. Deposits**

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

**Custodial Credit Risk – Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240 (4). As of June 30, 2011, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

**GRAVES COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 3. Capital Assets**

Capital asset activity for the year ended June 30, 2011 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 276,270	\$	\$	\$ 276,270
Total Capital Assets Not Being Depreciated	276,270			276,270
Capital Assets, Being Depreciated:				
Buildings	12,900,300			12,900,300
Vehicles	470,175	175,200		645,375
Equipment	1,504,162	143,525		1,647,687
Infrastructure	129,616,221	537,202		130,153,423
Total Capital Assets Being Depreciated	144,490,858	855,927		145,346,785
Less Accumulated Depreciation For:				
Buildings	(6,687,816)	(146,143)		(6,833,959)
Vehicles	(293,316)	(109,645)		(402,961)
Equipment	(700,132)	(118,641)		(818,773)
Infrastructure	(103,175,347)	(660,253)		(103,835,600)
Total Accumulated Depreciation	(110,856,611)	(1,034,682)		(111,891,293)
Total Capital Assets, Being Depreciated, Net	33,634,247	(178,755)		33,455,492
Governmental Activities Capital Assets, Net	\$ 33,910,517	\$ (178,755)	\$ 0	\$ 33,731,762

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 113,546
Protection to Persons and Property	126,847
Recreation and Culture	75,920
Roads, Including Depreciation of General Infrastructure Assets	716,189
Airports	2,180
Total Depreciation Expense - Governmental Activities	<u>\$ 1,034,682</u>

**GRAVES COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 3. Capital Assets (Continued)**

Capital asset activity for Business-Type Activities for the year ended June 30, 2011 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-Type Activities</u>				
Capital Assets, Being Depreciated:				
Equipment	\$	\$ 6,500	\$	\$ 6,500
Total Capital Assets Being Depreciated		6,500		6,500
Less Accumulated Depreciation For:				
Equipment		(1,300)		(1,300)
Total Accumulated Depreciation		(1,300)		(1,300)
Total Capital Assets, Being Depreciated, Net		5,200		5,200
Business-Type Activities Capital Assets, Net	\$ 0	\$ 5,200	\$ 0	\$ 5,200

Depreciation expense was charged to functions of the Business-Type Activities as follows:

<u>Business-Type Activities</u>	
Jail Canteen	\$ 1,300
Total Depreciation Expense - Governmental Activities	\$ 1,300

**Note 4. Short-term Debt**

**A. Ice Storm**

On June 3, 2011 the Graves County Fiscal Court entered into a \$1,500,000 loan agreement with First KY Bank at a rate of 5 percent to fulfill the contractual obligations resulting from the 2009 ice storm that affected much of Western Kentucky. The county intends to pay the loan in full with reimbursement monies from Federal Emergency Management Affairs (FEMA). Principal and interest requirements as of June 30, 2011 are:

Fiscal Year Ended June 30	Principal	Interest
2012	\$ 1,500,000	\$ 14,995
Totals	\$ 1,500,000	\$ 14,995

**GRAVES COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 4. Short-term Debt (Continued)**

**B. Changes In Short-term Liabilities**

Short-term liability activity for the year ended June 30, 2011, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
<b>Primary Government:</b>				
<u>Governmental Activities:</u>				
Note Payable	\$	\$ 1,500,000	\$	\$ 1,500,000
Governmental Activities				
Long-term Liabilities	<u>\$ 0</u>	<u>\$ 1,500,000</u>	<u>\$ 0</u>	<u>\$ 1,500,000</u>

**Note 5. Long-term Debt**

**A. Courthouse Facility First Mortgage Revenue Bonds, Series 1996A**

On December 1, 1996 the Graves County Building Commission issued First Mortgage Refunding Revenue Bonds, Series 1996A in the amount of \$2,555,000 for the purpose of discharging the outstanding bond series 1990 and 1991 Court Facilities Project. The Kentucky Administrative Office of the Courts (AOC) agreed to pay \$233,000 annually for the principal and interest of these bonds directly to the paying agent. If the payment from AOC is not sufficient to meet the principal and interest requirements of the bonds, the County is liable of the remainder. Bond principal and interest requirements as of June 30, 2011 are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2012	<u>\$ 435,000</u>	<u>\$ 21,533</u>
Totals	<u>\$ 435,000</u>	<u>\$ 21,533</u>

**B. Detention Facility First Mortgage Revenue Bonds, Series 1996B**

On December 1, 1996 the Graves County Building Commission issued First Mortgage Refunding Revenue Bonds, Series 1996B in the amount of \$1,700,000 for the purpose of discharging the outstanding bond series 1991 Detention Facilities Project. The Graves County Building Commission and Graves County have entered into an annually renewable lease, dated December 1, 1996, wherein Graves County will lease from the Graves County Building Commission the project and project site, at an agreed rental, the proceeds of which will be used to pay principal and interest on the bonds. Bond principal and interest requirements as of June 30, 2011 are:

**GRAVES COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 5. Long-term Debt (Continued)**

**B. Detention Facility First Mortgage Revenue Bonds, Series 1996B (Continued)**

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2012	<u>\$ 70,000</u>	<u>\$ 3,570</u>
Totals	<u><u>\$ 70,000</u></u>	<u><u>\$ 3,570</u></u>

**C. Wheeloader**

On August 24, 2009, the Graves County Fiscal Court entered into a \$103,000 lease agreement at a rate of 4.5 percent to purchase a wheel loader for the Road Department. Monthly installments of \$1,151 are payable for 48 months and a final balloon payment of \$62,600 is due at maturity of the lease. Future principal and interest requirements as of June 30, 2011 are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 11,072	\$ 3,900
2013	10,709	3,110
2014	<u>63,282</u>	<u>471</u>
Totals	<u><u>\$ 85,063</u></u>	<u><u>\$ 7,481</u></u>

**D. Excavator**

On October 10, 2005, the Graves County Fiscal Court entered into a \$175,725 lease agreement at a rate of 5.25 percent to purchase a road excavator for the Road Department. Future principal and interest requirements as of June 30, 2011 are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 25,913	\$ 1,271
2013	<u>8,273</u>	<u>91</u>
Totals	<u><u>\$ 34,186</u></u>	<u><u>\$ 1,362</u></u>

**E. Wastewater Treatment Facility**

On February 1, 1990, the Graves County Fiscal Court entered into an agreement with the Kentucky Infrastructure Authority, (KIA) in order to construct a Waste Water Treatment Facility for Pilgrim's Pride (formerly known as Seaboard Farms, Inc.) The Graves County Fiscal Court also entered into an agreement with Pilgrim's Pride for rental payments equal to the loan payments. However, if the rental payments from Pilgrim's Pride are not sufficient to pay loan payments, the Graves County Fiscal Court is liable. As of June 30, 2011 KIA – Waste Water Treatment Facility for Pilgrim's Pride had been paid in full.

**GRAVES COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 5. Long-term Debt (Continued)**

**B. Changes In Long-term Liabilities**

Long-term liability activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Primary Government:</b>					
<u>Governmental Activities:</u>					
Refunding Bonds	\$ 845,000	\$	\$ 340,000	\$ 505,000	\$ 505,000
Financing Obligations	402,326		283,077	119,249	36,985
Governmental Activities					
Long-term Liabilities	<u>\$ 1,247,326</u>	<u>\$ 0</u>	<u>\$ 623,077</u>	<u>\$ 624,249</u>	<u>\$ 541,985</u>

**Note 6. Interest On Long-term Debt and Financing Obligations**

Debt Service on the Statement of Activities includes \$12,957 in interest on financing obligations and \$42,150 in interest on bonds and notes.

**Note 7. Interfund Transfers**

	General Fund	Building Commission Fund	Total Transfers In
General Fund		\$ 550,000	\$ 550,000
Road Fund	\$ 42,000		42,000
Building Commission Fund	155,965		155,965
Total Transfers Out	<u>\$ 197,965</u>	<u>\$ 550,000</u>	<u>\$ 747,965</u>

Reason for transfers:

To move resources from and to the General Fund and other funds, for budgetary purposes, to the funds that will expend them.

**Note 8. Employee Retirement System**

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

**GRAVES COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 8. Employee Retirement System (Continued)**

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.16 percent.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 32.97 percent.

The county's contribution for FY 2011 was \$466,568.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

<b>Years of Service</b>	<b>% paid by Insurance Fund</b>	<b>% Paid by Member through Payroll Deduction</b>
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Hazardous employees whose participation began on or after July 1, 2003, earn fifteen dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.



**GRAVES COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 8. Employee Retirement System (Continued)**

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

**Note 9. Deferred Compensation**

For the fiscal year ended June 30, 2011, the Graves County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

**Note 10. Insurance**

For the fiscal year ended June 30, 2011, Graves County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**Note 11. Assets Held For Resale**

Assets held for resale activity for the year ended June 30, 2011 was as follows:

<u>Governmental Activities:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Assets Held For Resale				
Mack Trucks	<u>\$ 608,000</u>	<u>\$</u>	<u>\$</u>	<u>\$ 608,000</u>
Total Assets Held For Resale	<u>\$ 608,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 608,000</u>

**GRAVES COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 12. Prior Period Adjustments**

**A. Net Asset Beginning Balance For Governmental Activities**

The prior year ending balance for governmental activities has been restated for the following:

	<u>Governmental Activities</u>	
Net Assets Ending Balance Prior Year		\$ 35,097,582
Plus:		
Prior Year Voided Checks	\$ 722	
Adjustment to Accumulated Depreciations	<u>881,394</u>	882,116
Less:		
Adjustment to Capital Assets		<u>(881,392)</u>
Net Assets Beginning Balance - Restated		<u><u>\$ 35,098,306</u></u>

**B. Net Asset Beginning Balance for Business-type Activities**

The prior year ending balance for business-type activities has been restated for the following:

	<u>Business-Type Activities</u>	
Net Assets Ending Balance Prior Year		\$ 44,790
Plus:		
Prior Year Voided Checks	\$ 255	
Restricted Custody Center Account Excluded in Prior Year	<u>146</u>	401
Less:		
Unclaimed Inmate Funds Escheated to State		<u>(696)</u>
Net Assets Beginning Balance - Restated		<u><u>\$ 44,495</u></u>

**Note 13. Change In Accounting Principles**

The Graves County Fiscal Court implemented a new accounting standard, Governmental Accounting Standards Board (GASB) Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions, which has altered the classifications of fund balance on the Balance Sheet – Governmental Funds. The implementation also resulted in four funds previously presented as special revenue funds that no longer meet the definition to be rolled into the General Fund.

As a result, the beginning Fund Balance for the General Fund has been increased for the addition of the previously reported Jail Fund, Local Government Economic Development Fund (LGEA), Disaster and Emergency Services Fund (DES), and Adult and Juvenile Detention Fund. The Jail Fund was reported as a major fund, while the LGEA Fund, DES Fund, and Adult and Juvenile Detention Fund were reported as non-major funds. The net effect was an increase to the beginning balance of the General Fund of \$10,145 on the *Statement of Revenues, Expenditures, and Changes in Fund Balance – Modified Cash Basis*. The General Fund beginning balances was also increased \$722, due to prior year voided checks.

**GRAVES COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**



**GRAVES COUNTY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**Fiscal Year Ended June 30, 2011**

Federal Grantor CFDA #	Program Title	Pass-Through Grantor's Number	Expenditures
<b><u>U.S. Department of Homeland Security</u></b>			
<i><b>Passed-Through State Department of Military Affairs:</b></i>			
97.036	Disaster Grants - Public Assistance - Presidentially Declared	FEMA-DR-1818-KY **	\$ 1,177,261
97.042	Emergency Managements Performance Grants	Unavailable	<u>9,544</u>
<b>Total U.S. Department of Homeland Security</b>			<u><u>1,186,805</u></u>
<b><u>Department of Housing and Urban Development</u></b>			
<i><b>Passed-Through State Department for Local Government:</b></i>			
14.228	Community Development Block Grants/State's Program	08-062	<u>10,000</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<u><u>10,000</u></u>
Total Expenditures of Federal Awards			<u><u>\$ 1,196,805</u></u>

\*\*Tested as Major Program or Cluster

**GRAVES COUNTY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Fiscal Year Ended June 30, 2011**

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Graves County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

**GRAVES COUNTY**  
**BUDGETARY COMPARISON INFORMATION**  
**Other Information - Modified Cash Basis**

**For The Year Ended June 30, 2011**





**GRAVES COUNTY**  
**BUDGETARY COMPARISON INFORMATION**  
**Other Information - Modified Cash Basis**

**For The Year Ended June 30, 2011**

GENERAL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 2,775,000	\$ 3,280,000	\$ 3,271,792	\$ (8,208)
In Lieu Tax Payments	144,000	175,100	175,113	13
Excess Fees	259,694	322,294	322,122	(172)
Licenses and Permits	59,500	59,500	21,370	(38,130)
Intergovernmental Revenue	113,400	1,465,072	989,220	(475,852)
Miscellaneous	115,600	225,600	475,891	250,291
Interest	2,000	2,000	1,307	(693)
Total Revenues	3,469,194	5,529,566	5,256,815	(272,751)
EXPENDITURES				
General Government	1,003,339	1,060,439	1,033,214	27,225
Protection to Persons and Property	210,531	417,331	562,531	(145,200)
General Health and Sanitation	59,000	59,000	504,178	(445,178)
Social Services	28,500	37,600	37,796	(196)
Recreation and Culture	188,000	188,000	175,592	12,408
Airports	15,000	15,000	16,942	(1,942)
Debt Service			260,363	(260,363)
Capital Projects	7,270	265,942		265,942
Administration	982,824	2,422,324	870,365	1,551,959
Total Expenditures	2,494,464	4,465,636	3,460,981	1,004,655
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)				
	974,730	1,063,930	1,795,834	731,904
OTHER FINANCING SOURCES (USES)				
Transfers Out	(2,318,765)	(2,577,765)	(1,992,465)	585,300
Transfers In	1,094,035	1,094,035	550,000	(544,035)
Total Other Financing Sources (Uses)	(1,224,730)	(1,483,730)	(1,442,465)	41,265
Net Changes in Fund Balance				
	(250,000)	(419,800)	353,369	773,169
Fund Balance - Beginning	250,000	419,800	391,152	(28,648)
Fund Balance - Ending				
	\$ 0	\$ 0	\$ 744,521	\$ 744,521

**GRAVES COUNTY**  
**BUDGETARY COMPARISON INFORMATION**  
**Other Information - Modified Cash Basis**  
**For The Year Ended June 30, 2011**  
**(Continued)**

	<b>ROAD FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 1,740,964	\$ 2,086,464	\$ 2,085,352	\$ (1,112)
Miscellaneous	200	17,200	26,860	9,660
Interest	2,000	2,000	2,729	729
Total Revenues	<u>1,743,164</u>	<u>2,105,664</u>	<u>2,114,941</u>	<u>9,277</u>
<b>EXPENDITURES</b>				
Roads	2,254,680	2,585,265	2,062,614	522,651
Airports		18,240	18,240	
Debt Service	50,000	63,675	35,670	28,005
Administration	147,200	147,200	126,149	21,051
Total Expenditures	<u>2,451,880</u>	<u>2,814,380</u>	<u>2,242,673</u>	<u>571,707</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(708,716)</u>	<u>(708,716)</u>	<u>(127,732)</u>	<u>580,984</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	<u>708,716</u>	<u>708,716</u>	<u>42,000</u>	<u>(666,716)</u>
Total Other Financing Sources (Uses)	<u>708,716</u>	<u>708,716</u>	<u>42,000</u>	<u>(666,716)</u>
Net Changes in Fund Balance			(85,732)	(85,732)
Fund Balance - Beginning			<u>126,942</u>	<u>126,942</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 41,210</u>	<u>\$ 41,210</u>

**GRAVES COUNTY**  
**BUDGETARY COMPARISON INFORMATION**  
**Other Information - Modified Cash Basis**  
**For The Year Ended June 30, 2011**  
**(Continued)**

<b>JAIL ESCROW FUND</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 500,000	\$ 500,000	\$ 620,407	\$ 120,407
Interest			2,049	2,049
Total Revenues	500,000	500,000	622,456	122,456
<b>EXPENDITURES</b>				
Debt Service	155,965	155,965	42	155,923
Administration		104,000		104,000
Total Expenditures	155,965	259,965	42	259,923
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	344,035	240,035	622,414	382,379
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers Out	(1,094,035)	(1,094,035)	(550,000)	544,035
Transfers In		104,000		(104,000)
Total Other Financing Sources (Uses)	(1,094,035)	(990,035)	(550,000)	440,035
Net Changes in Fund Balance	(750,000)	(750,000)	72,414	822,414
Fund Balance - Beginning	750,000	750,000	863,630	113,630
Fund Balance - Ending	\$ 0	\$ 0	\$ 936,044	\$ 936,044

**GRAVES COUNTY**  
**NOTES TO OTHER INFORMATION**

**June 30, 2011**

**Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**Reconciliation To The Statement Of Revenues, Expenditures And Changes In Fund Balances – Governmental Funds – Modified Cash Basis**

**General Fund**

Beginning Fund Balance - Budgetary Basis	\$ 391,152
Jail Fund - Beginning Fund Balance	5,071
LGEA Fund - Beginning Fund Balance	163
DES Fund - Beginning Fund Balance	116
Juvenile Detention Fund - Beginning Fund Balance	<u>4,795</u>
Fund Balance - Beginning - Modified Cash Basis	<u><u>\$ 401,297</u></u>
Total Revenues - Budgetary Basis	\$ 5,256,815
Jail Fund - Revenues	278,908
LGEA Fund - Revenues	17,880
DES Fund - Revenues	14,550
Juvenile Detention Fund - Revenues	<u>45</u>
Total Revenues - Modified Cash Basis	<u><u>\$ 5,568,198</u></u>
Total Expenditures - Budgetary Basis	\$ 3,460,981
Jail Fund - Expenditures	1,723,082
DES Fund - Expenditures	33,833
Juvenile Detention Fund - Expenditures	<u>333,130</u>
Total Expenditures - Modified Cash Basis	<u><u>\$ 5,551,026</u></u>
Total Other Financing Sources (Uses) - Budgetary Basis	\$ (1,442,465)
Jail Fund - Transfers In	1,446,000
DES Fund - Transfers In	19,900
Juvenile Detention Fund - Transfers In	<u>328,600</u>
Total Other Financing Sources (Uses) - Modified Cash Basis	<u><u>\$ 352,035</u></u>

**GRAVES COUNTY**  
**NOTES TO OTHER INFORMATION**  
**June 30, 2011**  
**(Continued)**

**Reconciliation To The Statement Of Revenues, Expenditures And Changes In Fund Balances –  
 Governmental Funds – Modified Cash Basis (Continued)**

**General Fund (Continued)**

Ending Fund Balance - Budgetary Basis	\$ 744,521
Jail Fund - Ending Fund Balance	6,897
LGEA Fund - Ending Fund Balance	18,043
DES Fund - Ending Fund Balance	733
Juvenile Detention Fund - Ending Fund Balance	<u>310</u>
Fund Balance - Ending - Modified Cash Basis	<u><u>\$ 770,504</u></u>

**Road Fund**

Total Expenditures - Budgetary Basis	\$ 2,242,673
Ice Storm Expenditures	<u>1,500,000</u>
Total Expenditures - Modified Cash Basis	<u><u>\$ 3,742,673</u></u>
Total Other Financing Sources (Uses) - Budgetary Basis	\$ 42,000
Issuance of Short-term Debt	<u>1,500,000</u>
Total Other Financing Sources (Uses) - Modified Cash Basis	<u><u>\$ 1,542,000</u></u>

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**







**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Tony Smith, Graves County Judge/Executive  
Members of the Graves County Fiscal Court

**Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of Financial Statements  
Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund, of Graves County, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated June 1, 2012. Graves County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

Management of the Graves County Fiscal Court is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Graves County Fiscal Court's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Graves County Fiscal Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Graves County Fiscal Court's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2011-03, 2011-04, 2011-05, and 2011-06 to be material weaknesses.



Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Graves County's financial statements as of and for the year ended June 30, 2011, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 2011-01 and 2011-02.

The Graves County Judge/Executive's responses to the findings identified in our audit are included in the schedule of findings and questioned costs. We did not audit the County Judge/Executive's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', written in a cursive style.

Adam H. Edelen  
Auditor of Public Accounts

June 1, 2012

**REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**





**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Tony Smith, Graves County Judge/Executive  
Members of the Graves County Fiscal Court

Report On Compliance With Requirements  
That Could Have A Direct And Material Effect On Each Major Program  
And On Internal Control Over Compliance In Accordance With OMB Circular A-133

Independent Auditor's Report

Compliance

We have audited the compliance of Graves County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. Graves County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Graves County's management. Our responsibility is to express an opinion on Graves County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Graves County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Graves County's compliance with those requirements.

In our opinion, Graves County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2011-07.



Report On Compliance With Requirements  
That Could Have A Direct And Material Effect On Each Major Program  
And On Internal Control Over Compliance In Accordance With OMB Circular A-133  
(Continued)

Internal Control Over Compliance

The management of Graves County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Graves County's internal control over compliance with requirements that could have a direct and material effect on a major federal program as a basis for designing our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Graves County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2011-08 to be a material weakness.

The Graves County Judge/Executive's responses to the findings identified in our audit are included in the schedule of findings and questioned costs. We did not audit the County Judge/Executive's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Adam H. Edelen  
Auditor of Public Accounts

June 1, 2012

**GRAVES COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**For The Year Ended June 30, 2011**





**GRAVES COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**Fiscal Year Ended June 30, 2011**

**A. SUMMARY OF AUDIT RESULTS**

1. The auditor's report expresses unqualified opinions on the governmental activities, business-type activities, and each major fund of Graves County.
2. Four material weaknesses relating to the audit of the financial statements are reported in the Independent Auditor's Report.
3. Two instances of noncompliance material to the financial statements of Graves County were disclosed during the audit.
4. One material weakness relating to the audit of the major federal awards program is reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Graves County expresses an unqualified opinion.
6. There are two findings relative to the major federal awards programs for Graves County reported in Part C of this schedule.
7. The program tested as a major program was: Disaster Grants – Public Assistance (Presidentially Declared Disasters) (CFDA #97.036).
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Graves County was not determined to be a low-risk auditee.

**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

**STATE LAWS AND REGULATIONS**

2011-01    The County's 4<sup>th</sup> Quarter Financial Report Should Be Prepared In Accordance With KRS 68.360

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According to the 4<sup>th</sup> Quarter Financial Report, the fund balance of the Road Fund as of June 30, 2011 was (\$29,879). This apparent deficit was the result of a Road Fund certificate of deposit (CD) totaling \$71,089 that was excluded from Road Fund activity on the 4<sup>th</sup> Quarter Financial Report.

KRS 68.360(2) states, "the county judge/executive shall, within fifteen (15) days after the end of each quarter of each fiscal year, prepare a statement showing the current fiscal year to date actual receipts from each county revenue source, the totals of all encumbrances and expenditures charged against each budget fund, the unencumbered balance of the fund, and any transfers made to or from the fund."

Given the fact that the County failed to include the balance of the CD and the associated interest earned on its year-end 4<sup>th</sup> Quarter Financial Report, the County is non-compliant with KRS 68.360(2). Therefore, in the future, we recommend the County's 4<sup>th</sup> Quarter Financial Report be complete as to all receipts, expenditures, and fund balances in order to accurately reflect the financial activities and condition of the County.

*County Judge/Executive Tony Smith's Response: Will make every effort to comply.*

**GRAVES COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2011**  
**(Continued)**

**B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)**

STATE LAWS AND REGULATIONS (Continued)

2011-02 Expenditure Should Not Exceed Line-Item Appropriation Amounts

While reviewing the County's budget and 4<sup>th</sup> Quarter Financial Report for the fiscal year ending June 30, 2011, we noted expenditures in the General, Road, Jail, D.E.S., and Adult and Juvenile Housing Funds that exceeded the amount appropriated by the County's approved budget. According to KRS 68.300, "Any appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not within the budget appropriation, shall be void. No member of the fiscal court shall vote for any such illegal appropriation or claim". Therefore, in the future, we recommend the county treasurer and finance officer monitor the budget more closely and the fiscal court amend the county's budget or transfer necessary appropriations in order to prevent the county from exceeding line-item budget amounts.

*County Judge/Executive Tony Smith's Response: Will closely monitor the budget more closely.*

INTERNAL CONTROL - MATERIAL WEAKNESSES

2011-03 Internal Controls Over The Collection Of And Accounting For Payroll Taxes Should Be Strengthened

During the testing of payroll taxes, also known as license fees, we noted deficiencies in internal controls over these receipts, which leave them susceptible to errors and misappropriation. Deficiencies such as missing tax returns, the lack of a subsidiary ledger, the lack of timely deposits, and the lack of record-keeping and collection of delinquent taxes put payroll taxes at a high risk that errors or fraud could occur and go undetected.

Strong internal controls over receipts are essential in assuring that they are properly recorded and protecting them from theft or misappropriation. Not only do strong internal controls protect the receipts at hand, but they also protect the individuals or employees that are in charge of accounting for them.

Therefore, we recommend the County strengthen internal controls over the collection of and accounting for payroll taxes. By implementing controls such as a subsidiary ledger, whereby all payroll tax receipts for each day are recorded and batched, daily deposits, and record-keeping and collection of delinquent taxes, the County can reduce the risks currently associated with payroll taxes.

*County Judge/Executive Tony Smith's Response: We will work with the Auditor's office to improve our system.*

**GRAVES COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2011**  
**(Continued)**

**B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)**

**INTERNAL CONTROL - MATERIAL WEAKNESSES**

**2011-04 Internal Controls Over The Financial Reporting Of Capital Assets And Infrastructure Should Be Strengthened**

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Material weaknesses exist over the reporting of capital assets and infrastructure of Graves County. Capital assets records were incomplete as to county assets, depreciation amounts, accumulated depreciation amounts. Also, current year disposals could not be determined due to past assets being reported in lump sums.

Strong internal controls over capital assets are necessary to ensure accurate financial reporting as well as protect assets from misappropriation.

In order to strengthen the county's internal controls over capital assets and infrastructure, we recommend the county establish a detailed inventory system. This system should include a detailed description of the asset, an inventory control number or serial number, the date acquired, location, date destroyed or sold as surplus, and a brief description of why the asset was discarded. The inventory of county assets should be updated throughout the year as new assets are purchased. It should also be updated as to annual depreciation and accumulated depreciation amounts and current year disposals. We also recommend the county conduct a physical inspection of the county's assets at the end of each year to make comparisons to the county's list of inventoried assets.

*County Judge/Executive Tony Smith's Response: We will work with the Auditor's office to improve.*

**2011-05 Internal Controls Over The Financial Reporting Of Liabilities And Debt Service Should Be Strengthened**

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Material weaknesses exist over the reporting of liabilities and debt of Graves County. The June 30, 2011 outstanding debt balances reported on the 4<sup>th</sup> Quarter Financial Report were materially misstated when compared to the actual debt balances confirmed with lenders.

Strong internal controls over outstanding debt and liabilities are necessary to ensure accurate financial reporting. Therefore, we recommend the county strengthen internal controls over the reporting of debt service payments and outstanding balances. Internal controls such as comparisons of payment amounts and outstanding balances to amortization and payment schedules should be made regularly. We also recommend the county consult with its lenders to verify outstanding debt balances are in agreement. Such practices will strengthen internal controls over liabilities and debt service and ensure that proper amounts are reported.

*County Judge/Executive Tony Smith's Response: After working with the Auditor's office, this has been resolved.*

**GRAVES COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2011**  
**(Continued)**

**B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)**

**INTERNAL CONTROL - MATERIAL WEAKNESSES (Continued)**

2011-06 **Internal Controls Over Expenditures Should Be Strengthened**

Material weaknesses exist over expenditures of Graves County. While testing expenditures, we noted purchase requests were not filled out properly, expenditures that were not recorded under the proper expenditure code, and expenditures that were not properly approved.

Strong internal controls over expenditures are essential in assuring expenditures are properly approved and recorded. They are also vital to ensuring that all expenditures are for the official business of the county.

Because of their importance, we recommend the county strengthen internal controls over expenditures. By requiring all expenditures to have a properly executed purchase request that includes the vendor, estimated amount of the expenditure, a suitable appropriation code in conformity with DLG accounting codes, and authorizing agent, the county can strengthen the internal controls structure over expenditures. Also, by requiring all expenditures to have fiscal court approval prior to payment, the county can ensure that all expenditures are for the official business and operation of the county.

*County Judge/Executive Tony Smith's Response: Will try to improve our weaknesses.*

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

2011-07 **The Graves County Fiscal Court Did Not Establish Procedures To Ensure Compliance With Procurement Compliance Requirements**

Federal Program: CFDA 97.036

Federal Agency: U.S. Department of Homeland Security

Compliance Area: Procurement

Amount of Questioned Costs: \$0

During testing of compliance requirements, auditor noted that invoices for clean-up of a federal disaster totaling \$1,569,682 that dated back to May of 2009 were paid in fiscal year 2010-2011. The fiscal court did not pay the vendors due to a cash shortage. KRS 65.140 requires vendors be paid within 30 days of receipt unless contract specifies otherwise. KRS 65.140 also states "An interest penalty of one percent (1%) of any amount approved and unpaid shall be added to the amount approved for each month or fraction thereof after the thirty (30) working days which followed receipt of vendor's invoice by the purchaser." Federal compliance requirements over procurement require the fiscal court to comply with applicable local, state, and federal laws. OMB A-133 also requires monitoring of all material compliance requirements to ensure compliance. We recommend the fiscal court establish procedures to ensure compliance with all OMB A-133 compliance requirements and ensure compliance with local, state, and federal laws. We also recommend the fiscal court enlist the County Attorney to determine the amount of interest, if any, due to the vendors that were not paid in accordance with KRS 65.140.

*County Judge/Executive Tony Smith's Response: The intent was not to borrow money from the bank until absolutely necessary to re-pay the contractor for 2009 ice storm.*

**GRAVES COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2011**  
**(Continued)**

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**  
**(Continued)**

2011-08    The Graves County Fiscal Court Failed To Implement Internal Controls Over Federal Compliance Requirements -Activities Allowed Or Unallowed/Allowable Costs, Cash Management, Procurement And Reporting

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Federal Program: CFDA 97.036

Federal Agency: U.S. Department of Homeland Security

Pass-through Agency: Department of Military Affairs

Compliance Area: Activities Allowed or Unallowed/Allowable Costs, Cash Management, Procurement and Reporting

Amount of Questioned Costs: \$0

During testing of internal controls, we noted no documentation of monitoring of federal compliance requirements- Activities Allowed or Unallowed/Allowable Costs, Cash Management, Procurement and Reporting. The fiscal court did not possess an understanding of federal compliance requirements. The weakness in internal controls led to vendors payments totaling \$1,569,682 being held in excess of one year prior to payment. We recommend the Fiscal Court require internal controls for monitoring OMB Circular A-133 requirements be established and documented to reduce the risk of material non-compliance with OMB Circular A-133 compliance requirements.

*County Judge/Executive Tony Smith's Response: Will do our best in the future to be better informed if we are ever hit with another disaster.*

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**CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

**GRAVES COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2011**

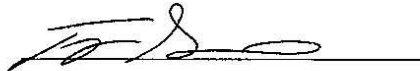




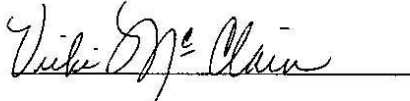
CERTIFICATION OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM  
GRAVES COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2011

The Graves County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



County Judge/Executive



County Treasurer

